

Message Text

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C O N F I D E N T I A L TOKYO 1083

DEPT PASS TREASURY AND EXMIM BANK

E.O. 11652 N/A

TAGS: EFIN, ETRD, OECD

SUBJECT: JAPAN'S POSITION ON OECD INFORMATION EXCHANGE ON EXPORT CREDITS

REF: STATE 12049

1. SUMMARY: EMBASSY OFFS RAISED SUBJECT WITH MITI, MOF, FONOFF, AND JAPAN EXIM BANK. OUR IMPRESSION IS THAT GOJ, INCLUDING MITI, HAD FULLY DECIDED TO AVOID EXCESSIVE EXPORT CREDIT COMPETITION, EVEN BEFORE THAT RAMBOUILLET SUMMIT. GOJ PROBLEM IN PARTICIPATION IN EXCHANGE OF INFORMATION STEMS, IN PART, FROM FACT THAT INTEREST RATES ON OFFICIAL AND PRIVATE EXPORT CREDITS ARE SET ONLY AT TIME OF SHIPMENT WHICH MAY BE IN PART, FROM THE INVOLVED BUREACRATIC PROCESS IN DECIDING CASE-BY-CASE, WHAT RATE JAPAN EXIM SHOULD CHARGE. EMBASSY OFFS INDICATED TO GOJ WILLINGNESS OF EXPERT TEAM FROM WASH TO DISCUSS IN TOKYO JAPANESE TECHNICAL PROBLEMS AND PERHAPS FIND WAY FOR JAPAN TO PARTICIPATE IN EXCHANGE OF INFORMATION ACCEPTABLE TO OTHER MEMBERS OF OECD EXPORT CREDIT. END SUMMARY.

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2. MEETING AT MITI CHAIRMANED BY HAMOKA (NEW DIR, OFREX AND TRADE FINANCING DIV.) AND OFFICIALS OF SEVERAL OTHER DIVS, INCLUDING MACHINERY INDUSTRIES BUR, PARTICIPATED. ON SEVERAL OCCASIONS, CONSIDERABLE CONSULTATION AMONG OFFICIALS WAS REQUIRED BEFORE MITI COULD STATE ITS POSITION CORRECTLY, INDICATING THAT THE CREDIT DECISION PROCESS IS COMPLICATED AND MUST TAKE INTO ACCOUNT MANY DIFFERENT INTERESTS. NEVERTHELESS, HAMOKA WAS FIRM AT THE OUTSET IN STATING THAT BEFORE RAMBOULLET MITI HAD DECIDED TO AVOID EXCESSIVE EXPORT CREDIT COMPETITION. GOJ'S PROBLEM IS COMPLICATED BY FACT THAT EXPORTER, WHEN BIDDING ON CONTRACT, MUST ESTIMATE INTEREST RATE HE WILL HAVE TO PAY FOR SUPPLIER'S CREDIT FROM JAPAN EXIM BANK AND PRIVATE BANKS. OFFICIAL CONCEDED THAT SUPPLIER CAN GET SOME ADVANCE INDICATION ON WHAT RATE HE MAY BE ABLE TO OBTAIN. THE GOJ APPROVAL PROCESS OPERATES AS FOLLOWS.

3. FOR EXPORTS UNDER DEFERRED PAYMENTS, AN EXPORT LICENSE IS REQUIRED, INDICATING AMONG OTHER THINGS, THE RATE OF INTEREST THE SELLER OFFERS THE BUYER ON EXPORT SALES. MITI THEN CONSULTS WITH MOF, WHICH IN TURN CONSULTS WITH JAPAN EXIM. IF NEITHER OF THESE THREE GOJ ORGANIZATIONS HAVE SERIOUS PROBLEMS WITH THE TERMS BEING OFFERED, MITI ENABLES THE EXPORTER TO FINALIZE CONTRACT (AND PRESUMABLY, KNOW APPROXIMATE TERM ON WHICH HE WILL BE ABLE TO BORROW). PRIOR TO SHIPMENT, SUPPLIER GOES TO JAPAN EXIM FOR CREDIT COMMITMENT, AFTER WHICH EXPORT LICENSE IS APPROVED AND THEN CREDIT IS APPROVED. AS POINTED OUT BELOW, JAPAN EXIM HANDLES EACH CREDIT REQUEST ON CASE-BY-CASE BASIS.

4. MITI FULLY REALIZES THAT MUCH TIME ELAPSES BETWEEN NEGOTIATIONS ON EXPORTS AND FINAL JAPAN EXIM BANK CREDIT COMMITMENT. THEREFORE, GOJ CANNOT INDICATE SINGLE CONTRACT RATE OR EXCHANGE OF INFORMATION SYSTEM BECAUSE THIS NOT DETERMINED UNTIL END OF BUREAUCRATIC PROCESS. HOWEVER, HAMOKA INDICATED MITI WILLINGNESS ON EACH PROJECT TO PROVIDE ECG WITH THE RANGE OF INTEREST RATES WITHIN WHICH CREDIT WOULD BE PROVIDED TO THE JAPANESE SUPPLIER. THAT RANGE VARIES BY TYPE OF EXPORT

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AND IS PERIODICALLY CHANGED. MITI POINTED OUT THAT ITALIANS ALSO HAVE RANGE OF RATES. IN RESPONSE TO MITI QUESTION, EMBASSY OFF SAID HE WAS NOT IN POSITION TO SAY WHETHER THIS PROPOSAL WOULD BE ACCEPTABLE TO THE USG OR TO OTHER PARTICIPANTS OF THE ECG. HE INDICATED THAT QUESTION WOULD HAVE TO BE ANSWERED BY U.S. EXPERTS EITHER IN BILATERAL TALKS IN TOKYO OR AT THE FEB 10 MEETING IN PARIS. HE HOPED THAT GOJ DELEGATE WOULD

HAVE FIRM INSTRUCTIONS FOR THAT PARIS MEETING, BE PREPARED TO EXPLAIN ALL OF THE TECHNICAL PROBLEMS MENTIONED ABOVE, AND ASSIST THE GROUP IN REACHING AGREEMENT. MITI WILL SEND OTSUKA (DEP. DIR. FOREX AND TRADE FINANCING DIV), WHO IS ABLE PERSON.

5. AT JAPAN EXIM BANK, SUBJECT DISCUSSED WITH MAEDA (NEW DEP DIR ADMIN DEPT) AND MATSUMOTO (ASST MGR LOAN ADMIN DIV, ADMIN DEPT) MAEDA EXPLAINED "TECHNICAL PROBLEMS" ON EXCHANGE OF INFORMATION ON INTEREST RATES BECAUSE JAPAN EXIM PROVIDES SUPPLIERS RATHER THAN BUYERS CREDIT. SUPPLIER MUST MAKE HIS OWN ESTIMATE OF INTEREST RATE HE WILL HAVE TO CHARGE THE FOREIGN BUYER WITHOUT CERTAINTY OF BORROWING RATE. MAEDA EXPLAINED THAT DECISION ON INTEREST TO BE CHARGED BY JAPAN EXIM IS MADE AT TIME OF SHIPMENT AND THAT IS USUALLY MANY MONTHS AFTER JAPANESE SUPPLIER HAS WON CONTRACT. FOR THIS REASON, JAPAN EXIM UNABLE TO INDICATE IN ADVANCE TO OECD ECG WHAT RATE IT WILL CHARGE. (MATSUMOTO PERSONALLY BELIEVED THAT MOST APPROPRIATE RATE FOR OECD-ECG WOULD BE RATE SUPPLIER IS QUOTING TO PROSPECTIVE FOREIGN BUYER, RATHER THAN FINAL BLENDED RATE CHARGED THE JAPANESE SUPPLIER.)

6. FINATT ASKED ON WHAT BASIS JAPAN EXIM DETERMINES ITS LENDING RATE. MAEDA EXPLAINED THE DECISION IS MADE ON STRICTLY CASE-BY-CASE BASIS, AND THERE ARE MANY FACTORS CONSIDERED IN DETERMINING THE RATE. IN ANSWER TO FURTHER QUESTIONS HE CONCEDED THAT ONE OF THEM WAS RATE BEING CHARGED BY SUPPLIER TO FOREIGN BUYER: EXIM MAKES SURE THAT BLENDED RATE IS NOT LESS THAN INTEREST BEING CHARGED BY SUPPLIER (SO AS TO PREVENT SUPPLIER MAKING PROFIT ON FINANCING). MAEDA CONCEDED THAT IF CONFIDENTIAL

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INTEREST RATES ROSE FROM TIME SUPPLIER SIGNED CONTRACT AND SHIPMENT BEGAN, THE SUPPLIER MIGHT END UP HAVING TO PAY HIGHER RATE OF INTEREST THAN HE WOULD EARN. JAPAN EXIM ALSO CONSIDERS RATE BEING CHARGED BY COMMERCIAL BANKS TO SUPPLIER IN ITS DETERMINATION OF ITS LENDING RATE, AND IS INFLUENCED BY PRIVATE CREDIT CONDITIONS (HE DID NOT SAY WHETHER JAPAN EXIM WOULD LOWER ITS RATE TO COMPENSATE FOR THAT UNWILLING TO LIST ALL OF THE MANY FACTORS IT REVIEWS WHEN CONSIDERING INTEREST CHARGES BUT FINATT BELIEVES THAT COMPETITIVE FACTORS AND PRESSURES BY COMPANIES AND OTHER GOVERNMENT AGENCIES, SUCH AS MITI, ARE IMPORTANT.

7. AT MOF SUBJECT DISCUSSED WITH WATANABE (DEP DIR

INT FIN BUR), YANAGUCHI (DIR OVERSEA PRIVATE INVESTMENT DIV). WHILE THEY LISTENED SYMPATHETICALLY TO USG ARGUMENTS, THEY INDICATED THAT INTEREST RATES AND EXCHANGE OF INFORMATION WAS OUTSIDE OF MOF JURISDICTION. NEVERTHELESS, IT IS APPARENT THAT MOF, ALONG WITH FONOFF, ARE NOT SYMPATHETIC TO GOJ FOOT DRAGGING IN OECD FORUM.

8. FOREIGN MIN OECD DIV CHIEF FUKUDA (ECONOMIC AFFAIRS BUT). STATED GOJ AGREEABLE IN PRINCIPLE TO INFORMATION EXCHANGE IN OECD-ECG IF TECHNICAL DIFFICULTIES CAN BE RESOLVED. FUKUDA SAID THAT A TYPICAL TECHNICAL PROBLEM WAS CONCERN IN GOJ THAT LENDING RATE DATA, IF EXCHANGED, WOULD COME TO ATTENTION OF EXPORTERS WHO WOULD USE IT TO PRESSURE JAPAN EXIM BANK TO LOWER RATES. HE AGREED THAT TECHNICAL TEAM FROM U.S. WOULD BE WELCOME, IF ALL OTHER GOJ AGENCIES AGREE, AND SAID FORMIN WOULD BE GLAD TO SPONSOR SUCH A VISIT.

9. ACTION REQUESTED: EXPERT TEAM VISIT TO JAPAN TO DRAMATIZE TO GOJ OUR INTEREST IN PROBLEM AND GALVANIZE THEM INTO FORMING A COORDINATED AND POSITIVE POSITION. SHOESMITH

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